

**USAID/Armenia**

**Annual Report**

**FY 2005**

June 16, 2005

## **Please Note:**

The attached RESULTS INFORMATION is from the FY 2005 Annual Report and was assembled and analyzed by the country or USAID operating unit identified on the cover page.

The Annual Report is a "pre-decisional" USAID document and does not reflect results stemming from formal USAID review(s) of this document.

Related document information can be obtained from:  
USAID Development Experience Clearinghouse  
8403 Colesville Road, Suite 210  
Silver Spring, MD 20910  
Telephone: (301) 562-0641  
Fax: (301) 588-7787  
Email: [docorder@dec.cdie.org](mailto:docorder@dec.cdie.org)  
Internet: <http://www.dec.org>

Portions released on or after July 1, 2005

## Armenia

### Performance:

**Background:** In the ten years since a cease fire in the conflict over Nagorno-Karabakh (NK) became effective, Armenia has consistently produced significant annual economic growth rates and done a good job of restructuring its legal/regulatory framework to support a market economy. Full implementation of such reforms remains a problem, however, and much work remains to be done in other areas as well. Nonetheless, Armenia's overall success was sufficient to make it eligible for assistance under the Millennium Challenge Account for both FY2004 and FY2005.

The lack of resolution of the NK conflict however, has meant that Armenia remains geographically and economically isolated, with its western and eastern borders (with Turkey and Azerbaijan respectively) closed. Successful resolution of the situation would allow the reopening of east-west trade routes, making Armenia more attractive to potential investors and opening up its small internal market. Russia continues to be both a major trading partner and a major investor in Armenia, particularly in the energy sector. Armenians working in Russia, the United States, France and other countries, provide significant flows of cash to Armenia in the form of remittances. USAID concentrates its efforts on helping Armenians achieve a stable, open democracy and a law-based market economy that provides a sustainable social safety net for its neediest citizens.

**U.S. Interests and Goals:** U.S. national interests in Armenia, and in the larger Caucasus region, revolve around security, conflict resolution, internal reform and energy security. Armenia's progress towards becoming a stable, Western-oriented and democratic country with a transparent, market-based economy is important to U.S. security and economic interests in the region. Given its proximity to the Middle East and the energy-rich countries of the Caspian Basin, Armenia is an important ally in the war against terrorism. U.S. ties to Armenia are many and varied, from the cultural bond of the large Armenian-American Diaspora community to diverse personal connections, commercial interests, and broader political relationships.

**Donor Relations:** The United States is the largest bilateral donor to Armenia and among the most influential, not only with the Government of Armenia, but also with the major multi-laterals, the World Bank and the International Monetary Fund (IMF). Besides formal monthly donor coordination meetings co-chaired by the World Bank, UNDP, and USAID, which include most all donors, the World Bank, IMF, and USAID communicate frequently and informally on major issues in order to ensure a coordinated voice wherever possible. On the technical level, staff coordinate on program and project issues as they arise, with varying degrees of success. Other multilateral donors include the European Union (energy, legal reform, governance, higher education, vocational education, agriculture, social protection, and information technology), the United Nations network of agencies, e.g. UNDP, UNHCR, UNICEF, World Food Program, World Health Organization, and the Organization for Security and Cooperation in Europe (OSCE). Other bilateral donors include Germany, the United Kingdom, Norway, and the Netherlands. USAID also coordinates its activities with private donors active in Armenia: the Lincy Foundation, Izmirlian Foundation, and the Soros Open Society Institute.

**Challenges:** Over the first nine months of CY2004, it is estimated that annual growth will be just over 10%. While generally beneficial, this economic growth obscures major problems of widespread poverty and unequal distribution of income. Over 40% of the Armenian population lives in poverty, while seven percent of the population lives in extreme poverty. The benefits of growth are accruing to the majority of the population at a very slow pace, raising legitimate questions among the majority as to whether the benefits of a democratic market economy will ever reach them. Equally disturbing is the recent tendency towards a heavy-handed government response to opposition parties and media. Corruption remains a major obstacle to both democratic and economic development. The dominance of the Executive branch of government has reduced competition in Armenia's political and economic spheres. As a result, rule of

law is problematic, political parties are weak, and the media are not truly independent.

#### Key Achievements:

1. Increased Employment in a Competitive Private Sector: USAID is working at the enterprise level to raise profitability and create employment, and at the policy level to ensure that the legal and regulatory environment is friendlier to domestic and foreign investors.

At the firm level, USAID continued to devote significant effort to promoting the development of private enterprises in Armenia, particularly micro-, small- and medium-sized enterprises (MSMEs). A major success has been the development of agri-businesses, an important component of the Armenian economy. As a result of the assistance, several companies have made significant progress in developing export markets for products, while others have made strides in growing closer to being "ready for export" due to improvements in management and production (quality control) systems. In the past year, 3,485 full-time jobs were created through the MSME assistance programs.

At the policy level, USAID funded the completion of the translation of a core package of 10 major environmental and safety standards, enabling Armenia to move away from the former Soviet approach to regulation to one that is compliant with World Trade Organization requirements. Over the past year, there were numerous accomplishments in the field of fiscal policy and management of the customs regime. In an attempt to improve accountability and transparency to the public, USAID supported the printing and distribution of 30,000 copies each of six different tax guides. In the area of budget policy, USAID assistance helped replace a paper-based system with an electronic budget database. Regarding customs, after completion of a wide-area network, USAID assistance developed a comprehensive classification and valuation reference system for Customs Houses and Customs Points. In the area of bank supervision, important strides have been made in the capacity of the Central Bank of Armenia to supervise commercial banks.

2. Secure and Sustained Access to Energy and Water Resources: In energy, physical infrastructure upgrades have been accomplished through privatization, regulatory reform and the creation and strengthening of key institutions. These moves, supported by USAID/, have increased transparency, accountability and self-reliance. Notwithstanding this progress, the energy sector remains weak and vulnerable. Armenia has virtually no fossil fuel resources and remains dependent on Russian and Iranian gas and nuclear fuel for 70% - 80% of its total energy requirements. In this context, USAID works at the policy level to promote legal and regulatory reforms and increased efficiencies in the electricity market. Second, USAID seeks privatization, commercialization and mobilization of additional private investments in the sector. Finally, in the short term, USAID financing of limited energy efficiency projects relieved harsh conditions, especially in schools, where lack of heat had forced some to close during the cold months.

In the water sector, the approach of USAID is to combine projects at the household level designed to increase access to water with broader projects at the policy level in order to introduce structural reforms into the sector. For example, at the local level USAID has worked to increase local capacity to develop and implement market-based solutions to water management; at the regional level within Armenia, USAID has financed the rehabilitation of selected water quality and monitoring systems; and at the national level, USAID seeks to improve the national policy and institutional framework for water management. USAID also recently finalized a regional water project for the South Caucasus that sought to increase and improve the dialogue among Armenia, Georgia and Azerbaijan. The regional project was successful in having representatives of the three countries work together to monitor river flow, and exchange data on water quality and other hydrological issues.

3. Improved Democratic Governance: During FY2004, USAID supported democratic change in Armenia through a broad program of assistance to the non-government organization (NGO) sector, independent media, local and municipal governments, the legislature, political parties, and the legal sector. Armenia's transition toward democracy had mixed results in FY2004. NGOs have progressed from personal lobbying and legislative drafting to long-term constituency supported advocacy campaigns. With the help of USAID assistance, over 13,000 people participated in 240 town hall meetings to discuss citizens' concerns with community leaders. USAID technical assistance helped independent (non-state-owned) media outlets improve their business acumen, address marketing concerns, and improve the objectivity of

their reporting. These achievements were overshadowed, however, by a number of incidents of violence against journalists and by the harsh crackdown on peaceful demonstrations in April 2004.

Host country commitment is also mixed. At the level of civil society and local governments, there has been evidence of strong commitment to more open and participatory processes, but the same cannot be said of the Ministry of Justice, for example, with regard to judicial reform. Similarly, in work with the National Assembly (NA or parliament), USAID has found staff to be committed and enthusiastic but the leadership less so.

There were some successes. The National Assembly's Control Chamber, exercising its oversight responsibilities, issued a high-profile Annual Report that was critical of Government actions in various sectors, provoking widespread discussion of the issues reported and considerable media attention. The National Assembly expanded and improved its openness and public relations by holding committee hearings, publishing draft laws in newspaper inserts, and developing a tracking system for citizen inquiries and communications. Less progress was made in the area of political party building, however. Despite a number of interventions by the USAID grantee, such as training of both opposition and pro-Government parties and work at the grassroots to lay the foundations for party-building, political parties remain weak and identified with personalities rather than policies and issues. In early CY2005, USAID will reconsider its investment in this type of assistance.

#### 4. Increased Utilization of Sustainable, High Quality Primary Healthcare (PHC) Services:

Overall, program performance meeting this Strategic Objective has met and in many cases exceeded expectations. Host country commitment to primary healthcare is improving overall; the national budget allocation to health was higher than ever in 2004, and is slated to rise another 32% in 2005. The proportion of the health budget allocated to primary care is also increasing. To back up this financial commitment, the Ministry of Health (MOH) has worked to finalize their National Health Policy document and new laws on healthcare and pharmaceuticals. While widespread corruption within the health system and donor coordination continue to be challenges, the Strategic Objective achieved important successes in 2004.

To build a sustainable foundation for PHC, USAID worked with the MOH and other relevant institutions to identify, test, implement and promote a variety of quality assurance programs; healthcare financing mechanisms; new information technology; and infrastructure improvements in order to increase quality and achieve greater transparency and accountability in the healthcare sector.

The USAID-supported Armenia Social Transition Program (ASTP) also has tested a new physician remuneration system in several pilot sites to provide incentives for better performance of PHC providers. Most importantly, ASTP's successful pilot open enrollment program has permitted Armenians, for the first time ever, to choose their own doctors. As citizens openly embraced the opportunity to register with a primary care provider of their choice, the government expanded the program. With USAID assistance, the MOH worked to improve the quality of national reproductive health and maternal and child healthcare policy, with emphasis on improving rural provider's performance, and integrating Sexually Transmitted Infection (STI) treatment and prevention into the primary healthcare framework.

5. Improved Social Protection: In FY2004, the new social reform Strategic Objective built on previous USAID work to reform the social insurance system: establishing the legal and regulatory framework related to social security cards, personified reporting, protection of privacy of personal information, pensions, survivor insurance, and disabilities. The new program has worked on improving and implementing the PAROS (poverty assessment) and PARNAS (personified reporting) systems; introducing Integrated Social Service Centers (ISSCs); launching Armenia's first ever Social Security Cards; training social workers; and providing social assistance to the elderly and other vulnerable populations. By the end of FY2004, over 1.8 million Armenian citizens had applied for a social security card. With the official census of population at 3.1 million, this constituted 59.6 % of the eligible population. USAID developed and introduced social insurance personification (PARNAS) prototype software linked to social security cards to minimize the chances of fraud and ensure fair payments of pensions. Over 21,000 employers in Yerevan now use this system.

Besides systemic reform, with 43 % of the country's population still classified as living in poverty, an important focus of USAID's social program remains direct service delivery (legal, social, health) to vulnerable populations. For example, the Support for Soup Kitchens program not only serves meals to 3,796 elderly beneficiaries in 27 kitchens and 3 community centers, but also provides legal, health and

social services such as training sessions on self-help and psychological support. The current Public Works program completed its fourth and final year with 48 projects ranging from \$30,000 to \$90,000 implemented in 7 regions of Armenia. These projects employed almost 5,000 vulnerable people, providing their families with short-term income.

6. Cross-cutting Initiatives and Program Support. This objective supports the USAID portfolio through such activities as participant training, Eurasia Foundation's grant and loan program, assistance to the American University of Armenia, and initial development of Global Development Alliances.

For more information on the USAID/Armenia program, please go to the following web address:  
[www.usaid.gov/am](http://www.usaid.gov/am)

## **Results Framework**

### **111-0130 Increased Employment in a Competitive Private Sector**

#### **SO Level Indicator(s):**

Number of full-time equivalent jobs created

**1.3.1** Improved Business Environment

**1.3.2** Growth of Micro, Small and Medium Sized Enterprises

### **111-0150 Secure and Sustained Access to Energy and Water Resources**

#### **SO Level Indicator(s):**

Percent of households with access to a continuous supply of potable water

Percent of households with access to reliable heat

**1.5.1** Improved Performance of Key Institutions for Sustainable Energy and Water Management

**1.5.2** Improved Delivery of Heat and Water Supply

**1.5.3** Increased Energy Security

### **111-0160 More Sustainable Water Management for Enhanced Environmental Quality**

### **111-0210 Improved Democratic Governance**

#### **SO Level Indicator(s):**

The Freedom House New Democracy Score

**2.1.1** Civic participation expanded

**2.1.2** Targeted governance institutions strengthened

### **111-0320 Increased Utilization of Sustainable, High Quality Primary Health Care Services**

#### **SO Level Indicator(s):**

Number of client visits for identified primary healthcare facilities in program areas

**3.2.1** Strengthened Institutional Capacity to Implement Government of Armenia/Ministry of Health

Primary Healthcare Reform

**3.2.2** Improved Service Delivery in Priority Primary Healthcare Disciplines

### **111-0340 Improved Social Protection**

#### **SO Level Indicator(s):**

Number of families receiving GOAM (Government of Armenia) poverty family benefits

**3.4.1** Expanded Social Assistance Program for Targeted Populations

**3.4.2** Reduced Need for Poverty Subsidies

**3.4.3** Social Insurance Programs Strengthened

### **111-0410 Households Living in Inadequate Shelter as a Result of the 1988 Earthquake Reduced**

#### **SO Level Indicator(s):**

Number of housing certificates issued during the period (000)

**4.1.1.1** Housing certificate program component implemented in targeted areas

**4.1.1.2** Potential of housing improvements grants as a means of meeting the housing needs of earthquake displaced is assessed

**4.1.1.3** Redevelopment in target areas is accelerated

### **111-0411 Households Living in Inadequate Shelter as a Result of the 1988 Earthquake Reduced**

### **111-0420 Cross-Cutting Programs**